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THRIFTS & MORTGAGES — SECTION BEGINS PAGE 6

VOL. CLII NO. 178 Friday, September 11, 1987 152nd Year

TODAY

TWENTY-FIVE financial institutions, most of them commercial banks, will dominate the world financial system within the next five years, predicted John G. Heimann, vice chairman of Merrill Lynch Capital Markets, at an international banking seminar in Montreal... **2**

THE TONKA CORP. is assembling a group of banks, with First Chicago as lead manager, to finance part of its $628 million acquisition of Kenner Parker Toys Inc.... **2**

BANK OF AMERICA and Bank of California, after being stung by multimillion-dollar punitive damage awards, are putting binding arbitration clauses into commercial loan agreements... **2**

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THRIFTS & MORTGAGES

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ADVOCATES of low-cost housing are getting a boost from the Federal Home Loan Bank of San Francisco, which provides member S&Ls with money for such projects through the Community Investment Fund... **8**

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A cap would probably be defeated, but it's dangerous.

Barbara Munson, a lobbyist for the Consumer Bankers Association, on proposed legislation that would set limits on the interest banks could charge on credit cards [Page 3]

Unquote

An American Banker Special Report

Sumitomo Bank of California Finds Niche in Asian Community

By MICHAEL A. ROBINSON
Second in a Series

SAN FRANCISCO — Though less widely known — and perhaps less feared — than their counterparts in the auto industry, Japanese banking executives have earned a reputation for placing greater emphasis on growth and market share than on profits.

Of the four major Japanese banks in California, three are in the midst of major expansion drives designed to solidify their power in the Golden State. In addition, those same three banks also push their image as "American" companies rather than marketing themselves as subsidiaries of giant Japanese banks.

But Teruhisa Shimizu, the outgoing president and chief executive of Sumitomo Bank of California, is happily out of step with his competitors at the Bank of California, California First Bank, and Sanwa Bank California.

His bank, a unit of Sumitomo Bank Ltd. founded in 1953 as a state-chartered bank, is the smallest of the group and is concerned with improving profit margins and maintaining its Japanese heritage. The Osaka-based parent company, which owns 86% of the bank, announced this week that Mr. Shimizu will return to the head office in Japan. He will be replaced by Keizo Yoshida,

Sumitomo: Page 14 ➤

A VIEW FROM OUTSIDE

MARTIN MAYER

Seidman's Brave New World

IN my book, "The Fate of the Dollar," published eight years ago, I noted that one of the reasons the United States had done such a bad job in managing the exchange value of its currency was a confusion of roles in Washington.

From Eisenhower's time, the secretary of the Treasury (whose central task is to fund the government at the lowest price) assumed the role of safeguarding the currency — or, in the case of Michael Blumenthal, deliberately not safeguarding it.

Meanwhile the chairman of the Fed (to which Congress has delegated its exclusive constitutional responsibility for coining money) became instead the instigator of macroeconomic policy, looking at the presumed results wrought in the real economy by putative changes in the money supply, rather than at money itself.

Under Carter the undersecretary of state for economic affairs in the State Department, which is by nature the protector of stable relations with foreign countries, was an economist with a long history of advocacy of floating rates.

All the arguments, in other words, were made ineffectively because they came from quarters that should have been arguing other positions. Comparisons are possible with the Iran-Contra disaster, when, as the Tower Commission stressed, the people whose job it was to protect the President instead helped him climb out on a

View from Outside: Page 4 ➤

Bailout Revives Controversy Over FDIC Role

St Germain Will Review Decision to Block Failure

By ROBERT TRIGAUX
and DAVID LAGESSE

After committing nearly $1 billion to the bailout of the $12 billion-asset First City Bancorporation of Texas, the Federal Deposit Insurance Corp. is bracing for criticism that it again has endorsed a policy that large U.S. banks will not be permitted to fail.

The agency's chairman, L. William Seidman, denies this is an accepted policy.

A storm of protest arose in 1984 after the FDIC committed $4.5 billion to rescue the $33.6 billion-asset Continental Illinois National Bank and Trust Company of Chicago. The FDIC expects to lose $1.7 billion on the Continental deal.

Banks with assets of $10 million or less have been bailed out in similar fashion, Mr. Seidman said, when such actions prove less costly to the FDIC than paying off depositors or selling a closed bank. To further justify the FDIC action, he said First City of Houston will be taken over by a private investor group, unlike Continental.

Nevertheless, the First City deal is the second largest bank bailout by the U.S. government. It causes industry observers to question if smaller banks are being grouped in the category of "too large to fail."

At least one critic, House Banking Committee Chairman Fernand St Germain, D-R.I., wants proof from the agency that First City's new operators, led by former First Chicago Corp. chairman A. Robert Abboud, have not been handed a sweetheart deal.

Next week, FDIC staff members will go to Capitol Hill to explain details of

FDIC: Page 12 ➤

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THRIFTS & MORTGAGES

Slower Gains Seen in Executive Compensation

By JEFFREY MARSHALL

New York

POORER PERFORMANCE by publicly held thrifts last year was the chief reason for a lower average gain in top executives' compensation, according to a California consulting firm.

The average cash compensation — salary plus annual bonus — given to the five top officers at 220 public thrifts rose 7% in 1986. That was several notches above the inflation rate but just half of the 14% average gain in 1985, according to the study by MCS Associates, a management consulting firm based in Newport Beach, Calif. MCS conducted a similar survey last year.

Jon Rosenbaum, an MCS associate who oversaw the survey, said performance of the top publicly held thrifts fell off last year "largely due to an accumulation of bad assets. And since so many of these individual executives derive much of their compensation from incentive awards, this decline reflects badly on the companies' financial fortunes."

Mr. Rosenbaum said the percentage gains at the public thrifts still outpaced those given to Fortune 500 executives, but by a narrower margin than in 1985.

The survey, which divided the thrifts in five peer groups by asset size, found the single highest paid executive in four of the five groups was paid less than last year — in one case, 43% less.

Cash Compensation of Top Thrift Executives

1986 average for top two executives, by company assets

	Under $200 million	$200 million-$500 million	$500 million-$1 billion	$1 billion-$2.5 billion	More than $2.5 billion
Highest-paid	$96,213	$136,128	$179,153	$260,548	$520,975
Second highest-paid	72,763	94,346	113,110	169,497	302,523

Source: MCS Associates

Only in the $500 million-$999 million group did the highest paid executive make more than in 1985.

Of the 220 thrifts, 8% paid their top executive more than $500,000 in 1986, the same percentage as in 1985. Three companies paid the top person more than $1 million. Thirty-two percent paid the chief executive more than $250,000, down slightly from the year earlier.

Material for the MCS survey came from proxy statements, with additional information in some cases coming directly from the institutions.

More thrifts are tying executive compensation to company performance, a trend Mr. Rosenbaum called "a healthy change." Use of discretionary annual plans — compensation plans not based on profits or business objectives — dropped from 11% to 4% of all public thrifts between 1985 and 1986, while profit-related plans rose from 13% to 17% in the same period, MCS reported.

While thrifts take some cues from what peers pay executives, Mr. Rosenbaum says a more important determinant may be the company's philosophy or business plan.

"If a thrift is heavily involved in mortgage banking, you may find that the chief lending officer is paid a lot more than one at a more traditional thrift," he said.

More reporting thrifts are providing employment contracts for top executives, the study found. "That trend is slowing, but it's still significant," Mr. Rosenbaum said. "For thrifts that have converted, it's a different management ball game. The downside of conversion is that executives realize they must serve a different master" — the stockholder.

The increase in the survey base, from 160 companies last year to 220 this year, is largely a function of the rise in conversions, Mr. Rosenbaum said, though improved data collection also played a part.

Other Findings

- Incentive plans are in place at 96% of the surveyed thrifts. Long-term plans are in place at 88% of those surveyed, up 6% from 1985, compared with 56% for annual plans. Forty-nine percent had a combination of the two.
- Almost a third of annual incentive plans are based on just one major element, such as profitability, peer comparison, or business plan objectives. Combination annual plans were used by just 26% of all reporting thrifts, but by almost half (47%) of those with assets above $2.5 billion.
- Defined benefit plans, the foundation of most retirement programs, are used by 82% of reporting thrifts, up 4% from 1985. Also increasing in popularity were 401(k) salary-reduction plans, up 6% from 1985, and employee stock ownership plans, up 5%. ■

> The percentage gains at the public thrifts still outpaced those given to Fortune 500 executives, but by a narrower margin than in 1985.

United Savings of America Adds to Its Network

➳ Continued from Page 6

branch is $17,000, compared with $6,000 at United Savings' regular branch. The deposit base at the 23 K mart branches is $50 million, with each store bringing in about $250,000 a month in new deposits.

"We seem to be doing about what the California K marts are doing," Mr. Voss said. "A lot of people don't admit to shopping at K mart, but about 50% of the country walks through a K mart once a month."

Branches in the K mart stores are staffed with one employee and have an automated teller machine for customers to make deposits or withdrawals. United Savings is hoping to attract customers by introducing some novel products, such as its mortgage prequalification program.

By feeding some basic financial information into a personal computer, a customer will receive a plastic card describing what size mortgage he can get. The consumer then can take the card to a realtor. United Savings plans to begin offering the service Jan. 1.

When United Savings first outlined its regional, consumer-oriented strategy several years ago, the competition for the consumer market was not as fierce, Mr. Voss said. But now a number of Chicago-area banks and savings and loans also have stepped up their efforts. And while United Savings said it wants to attract Middle America consumers, Mr. Voss said it must be more specific about who it goes after and must alter its marketing thrust accordingly.

"You can't be a plain vanilla anything today," he said. "You have to segment the markets."

In its fourth quarter, which ended June 30, United Savings earned $1.8 million, up substantially from $412,449 in the period last year. Mr. Voss also said the quality of earnings is better, with a larger percentage coming from operating earnings rather than the sale of assets.

The improvements partly reflect efficiencies gained through consolidation, he said.

Net worth remains well above regulatory requirements, at about $53 million, or 5.1% of total liabilities. And Mr. Voss expects net worth to climb to about 5.5% of total liabilities by June 30, 1988. ■

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Bethune Resigns As Thrift President

Special to the American Banker

LITTLE ROCK, Ark. — Ed Bethune, a former member of the House Banking Committee, has resigned as president of the $1.7 billion First Federal of Arkansas, the state's largest savings and loan association, to return to private law practice.

Mr. Bethune's resignation comes six months after he took the job and a month after First Federal, based in Little Rock, reported $60.5 million in second-quarter losses, primarily from energy loans.

Mr. Bethune served in the House from 1978 to 1983.

He also was chairman of the Federal Home Loan Bank of Little Rock from 1973 to 1977, when the headquarters of the Ninth District bank was moved to Dallas.

His is the second resignation of a top executive in as many months. Jim Coles, First Federal vice chairman and also a former president of the Federal Home Loan Bank of Little Rock, announced his resignation in August. Mr. Coles, who is scheduled to leave his post at the end of this month, said it had been his goal for a decade to retire at age 55 and return to his native California.

M.R. Godwin, chairman and chief executive officer of First Federal, expressed regret at Mr. Bethune's resignation and noted that he will continue as a member of the thrift's board of directors.

Mr. Bethune said he plans to be actively involved as a board member. "However, private law practice is my first love and it suits me better than corporate work," he said.

Mr. Bethune is also chairman of the Republican Party in Arkansas. ■

Strategic Dates

Jan. 1, 1988

WEST VIRGINIA TRIGGER: Effective today, banks and savings and loans from any state may acquire, respectively, West Virginia banks and savings and loans, but only on a reciprocal basis. The in-state institution must be at least two years old.

Offering Date Set For Bond Issue To Rescue FSLIC

By JIM McTAGUE
Washington Bureau

WASHINGTON — The first block of bonds designed to raise money for the insolvent Federal Savings and Loan Insurance Corp. will be issued Sept. 28, thrift regulators announced Wednesday.

A special unit, the Financing Corp., or Fico, will offer between $400 million and $600 million in bonds through underwriters for sale to institutional investors. Congress has empowered Fico to issue $10.8 billion in bonds for the FSLIC over the next three years.

Lawrence J. White, a member of the Federal Home Loan Bank Board, which oversees both the FSLIC and Fico, said Wednesday that the positive reception to the bonds from analysts at some of the bigger securities firms is encouraging.

The proceeds of the bond sales will be used to resolve about 400 problem thrift cases facing the FSLIC. As of year end, the agency was $6 billion in the red and unable to close or sell ailing institutions.

Mr. White, in a speech to 800 people at a conference on savings and loans sponsored by the American Institute of Certified Public Accountants, said the Bank Board has yet found the right candidate to become director of the FSLIC. Brian Newberger has been acting director since June 30, when Thurman C. Connell left to become president of the Federal Home Loan Bank of Des Moines. ■